

Message Text

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PAGE 01 KHARTO 01741 231225Z
ACTION EB-07

INFO OCT-01 AF-10 EUR-12 EA-07 NEA-10 ISO-00 AGRE-00
CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 EPG-02
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E.O. 11652: N/A
TAGS: BGEN, BNC, BEXP, EGN, SU
SUBJECT: LONRHO DISMISSED FROM PROJECT MANAGEMENT AT KENANA SUGAR

REF: KHARTOUM 0479

SUMMARY: SHAREHOLDERS OF KENANA SUGAR DISMISSED LONRHO AS
PROJECT MANAGER. LONRHO ASKS FOR RETURN OF ITS EQUITY
AND 10 MILLION STERLING IN DAMAGES. FIGHT OVER KENANA
PROBABLY WILL BE CONTINUED IN UK COURTS. AMERICAN AGRI-
BUSINESS FIRM ALEXANDER AND BALDWIN WILL BE RETAINED TO
PROVIDE TECHNICAL ASSISTANCE. SHAREHOLDERS AGREE TO
INCREASE CAPITAL FROM LS 40 MILLION TO LS 64 MILLION
END SUMMARY

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PAGE 02 KHARTO 01741 231225Z

1. SHAREHOLDERS IN 500 MILLION DOLLAR PLUS KENANA SUGAR
COMPANY VOTED ON MAY 20 TO DISMISS LONRHO AS PROJECT MANAGER.
SUDANESE GENERAL MANAGER WAS DESIGNATED TO REPLACE LONRHO'S
APPOINTEE AND SUDAN'S MINISTER OF INDUSTRY ASSUMED CHAIRMANSHIP.
KENANA'S CAPITAL WAS INCREASED FROM LS 40 MILLION (100 MILLION
DOLLARS) TO LS 64 MILLION (160 MILLION DOLLARS. 100 MILLION
DOLLAR CONCESSIONAL INFRASTRUCTURE LOAN BEING ARRANGED WHICH

PROBABLY WILL COME FROM SAUDI DEVELOPMENT FUND.

2. ALEXANDER AND BALDWIN (A&B) OF HAWAII WILL BE RETAINED TO PROVIDE TECHNICAL ASSISTANCE TO PROJECT MANAGERS. WAYNE RICHARDSON, PRESIDENT OF A&B, WILL SERVE ON TRANSITIONAL COMMITTEE FOR TAKEOVER. A&B HAVE BEEN SERVING AS TECHNICAL ADVISORS TO PRINCIPAL KUWAITI SHAREHOLDERS, BUT HAVE BEEN RELUCTANT TO TAKEOVER FULL MANAGEMENT RESPONSIBILITIES THEMSELVES.

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3. MANAGEMENT CHANGES IN AFRICA'S LARGEST SUGAR PROJECT TOOK PLACE MUCH AS OUTLINED IN FEBRUARY REFTEL. DISPUTE, HOWEVER, HAS BECOME EVEN MORE ACRIMONIOUS. NINETY PERCENT OF SHAREHOLDERS (GOS--40 PERCENT, SUDAN DEVELOPMENT CORPORATION--10 PERCENT, GOK--22 PERCENT THROUGH KUWAIT FOREIGN TRADING, CONTRACTING AND INVESTMENT CO, AND ARAB INVESTMENT CO.--18 PERCENT) VOTED FOR ONRHO'S OUSTER. LONRHO AND GULF INTERNATIONAL (KUWAITI FIRM WHICH REPORTEDLY OWNS SIGNIFICANT PORTION OF LONRHO) PLUS JAPANESE RESISTED. CHARGES AND COUNTER-CHARGERS ARE BEING EXCHANGED WHICH PROBABLY WILL BE AIRED IN BRITISH COURTS. BEYOND LONRHO'S INABILITY TO MANAGE PROJECT OF THIS SIZE, KENANA PROBABLY WILL CLAIM LONRHO VIOLATED 39 PROVISIONS OF THEIR CONTRACT AND ILLEGALLY RECEIVED COMMISSIONS ON ALL KENANA PURCHASES BY EMPLOYING A WHOLLY OWNED LONRHO SUBSIDIARY AS PURCHASING AGENT. LONRHO IS CHALLENGING PROCEDURES BEING FOLLOWED FOR THEIR REMOVAL AND HAS THREATENED TO DECLARE KENANA INSOLVENT. REPORTEDLY, LONRHO IS ASKING

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PAGE 03 KHARTO 01741 231225Z

FOR RETURN OF ITS EQUITY AND DAMAGES OF 10 MILLION STERLING.

4. THERE ARE RUMORS THAT KENANA DISPUTE HAS BEEN VIGOROUSLY DEBATED AMONG KUWAITI PARTNERS WHO INCLUDE HIGH LEVEL OFFICIALS AND MEMBERS OF ROYAL FAMILY.

5. FRENCH ASSISTANCE: ALTHOUGH FRENCH OFFER OF 400 MILLION FRANCS FOR KENANA HEADLINED IN LOCAL PRESS, SUDAN DEVELOPMENT COMPANY SOURCE INDICATED THAT FRENCH IS ONLY WILLING TO OFFER COMMERCIAL CREDITS-PERHAPS EXTENDING THE DUE DATES ON CREDITS FOR TECHNIP SERVICES. KENANA PRESENTLY DOES NOT INTEND TO USE ADDITIONAL FACILITIES GRANTED BY FRANCE ON COMMERCIAL TERMS.

6. COMMENT: MANAGEMENT TURNOVER, PARTICULARLY IN PRESENT ACRIMONIOUS ATMOSPHERE, MAY INEVITABLY RESULT IN FURTHER DELAYS AND COST INCREASES. A&B HAS BEEN PREPARING FOR THIS CONTINGENCY SINCE FEB AND IMPACT ON PROJECT MAY BE THEREBY MINIMIZED. MOST CRITICAL POINT IN PROJECT COMPLETION IS

ERECTION OF SUGAR MILL FOR WHICH 40 MILLION CONTRACT ALREADY
AWARDED TO CAPPER AND NEALE OF UK. IF DISPUTE FULLY AIRED IN UK
COURTS, SOME OF NIMEIRI'S CRITICS MIGHT GAIN SOME USEFUL TIDBITS.
AT THIS POINT, KENANA'S PROBLEMS DO NOT APPEAR TO HAVE DIMINISHED
ARAB DETERMINATION TO INVEST IN SUDAN'S GREAT AGRICULTURAL
POTENTIAL.

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